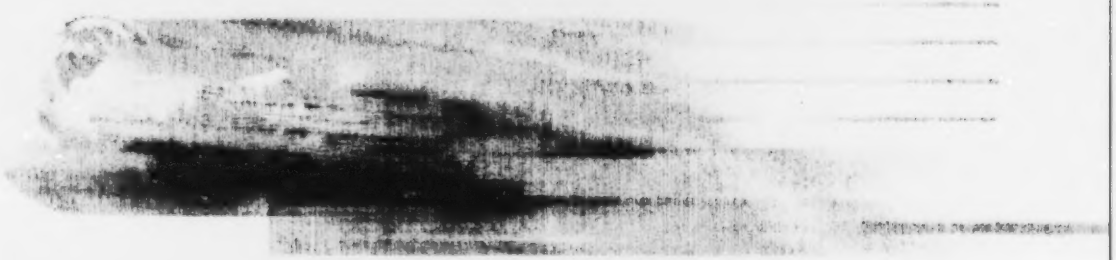
Alberta Economic Development

ALBERTA BUSINESS OUTLOOK, 2000-2001



June 2000

Policy and Economic Analysis Division

ALBERTA BUSINESS OUTLOOK, 2000 - 2001

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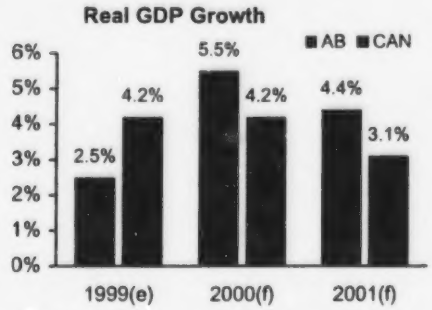
KEY INDICATORS

- After a growth slowdown in 1998 and the first half of 1999, because of low commodity prices, Alberta's economy has resumed strong growth in 2000. This is a result of very strong commodity prices, especially for crude oil and natural gas, and increased domestic and external demand. While real GDP growth for Alberta is estimated at 2.5 per cent in 1999, below the national average of 4.2 per cent, much stronger growth is expected for both this year and 2001.



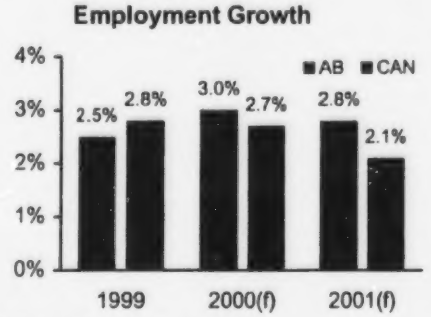
Sources: Alberta Treasury; Statistics Canada; AED

- A strong energy sector, continued growth in the rest of Canada, stronger consumer demand and increased exports will fuel Alberta's economic growth in both 2000 and 2001. The two strongest growing sectors since the mid nineties, construction and business services, are also expected to grow strongly in both 2000 and 2001, as are the communications and manufacturing sectors. All forecasters predict Alberta to be among the top three provinces in both 2000 and 2001.

- Private sector forecasts for Alberta's economic growth in 2000 range from 4 to 5.8 per cent. Because Alberta's economic performance during the first quarter was much stronger than expected, growth in 2000 is forecast at 5.5 per cent. Canada's economy is forecast to expand by 4.2 per cent.

- Although reduced provincial income taxes will positively impact growth in 2001, lower export growth and lower economic growth in Canada and the US, partly because of higher interest rates, could reduce Alberta's growth rate to about 4.4 per cent. Private sector forecasts for 2001 range from 3 to 4.7 per cent. Canada's forecast growth for 2001 is 3.1 per cent.

- Employment growth in 1999 slowed to 37,900. As a result of the resurgent economy, employment is forecast to post a healthy 3 per cent increase in 2000, adding an additional 47,000 jobs to the provincial labour force. Employment growth is forecast to moderate slightly in 2001 to 2.8 per cent for a net gain of 45,000.



Sources: Statistics Canada; AED

- In 1999, farm cash receipts increased 2.2 per cent to a record $6.5 billion. Revenue from livestock sales, which now account for more than 60 per cent of cash receipts, rose 9.3 per cent last year, offsetting the impact of lower prices for grains and canola. Forecasts for 2000 are for increases in farm cash receipts and net income, led by the livestock sector.

- Oil prices averaged US$19.24 per barrel for West Texas Intermediate (WTI) in 1999, and have remained very strong in the first half of 2000, at over $30 per barrel by the end of June. After rising strongly throughout most of 1999, natural gas prices further strengthened in 2000. The price of natural gas, which averaged Cdn$2.50 per thousand cubic feet in 1999, has increased sharply since the beginning of this year.

- According to the Petroleum Services Association of Canada, the industry is expected to drill approximately 9,500 wells in Alberta in 2000, compared to 6,439 last year. Goepel McDermid forecasts that the number of wells drilled in Western Canada will further increase in 2001 by about 7%.

- Alberta's forest product shipments increased by about 11 per cent in 1999, and will see continued growth in 2000. The industry is relying on continued improvements in Asian economies and a favorable Canada – US exchange rate.

- Manufacturing activity should contribute to Alberta's economic growth in both 2000 and 2001. Shipments are expected to grow by 14 per cent in 2000, as both prices and volumes are expected to be higher than in 1999, and by about 7 per cent in 2001, mostly as a result of strong volume growth.

- Alberta's advanced technology sector has grown strongly in recent years, and should continue to do well both this year and in 2001. Growth will be fuelled by continued demand for computer software, engineering services and telecommunications equipment.

- After increasing by a modest 4.5 per cent in 1999, retail sales have grown strongly during the past few months, and are now expected to increase by 8 per cent in 2000. In 2001, retail sales are expected to remain strong, partly because of the provincial tax cuts. Growth is forecast at 7 per cent.

- Housing starts declined to 25,447 in 1999. Lower employment growth, high inventory levels and a reduction in provincial in-migration slowed the demand for new housing. The outlook for 2000 is mixed. The demand for new housing will increase because of the strong Alberta economy, but the increase will be constrained by the inventory overhang. As a result, starts are forecast to increase to 26,500 in 2000. Even though higher interest rates may have an impact next year, starts are expected to increase to 27,500, because of Alberta's strong economy and personal tax cuts.

- 1999 was a modest year for Alberta's tourism industry, with the exception of the Mountain Parks, which experienced strong growth from international markets. The forecast for 2000 is for continued growth in the US market, and for lower but positive growth in the domestic and overseas markets. Overall, tourism revenues in Alberta rose to approximately $4.2 billion in 1999, and are expected to reach $4.4 billion in 2000.

AGRICULTURE

- Farm cash receipts increased 2.2 per cent in 1999 to a new record high of $6.5 billion. The growth in receipts was driven by improved livestock sales and direct program payments from both provincial and federal governments, which more than offset the negative impact of lower prices and returns from grains and oilseeds.

- Preliminary forecasts for 2000 are for increases in cash receipts and total net farm income, led largely by the livestock sector and program payments. Farm cash receipts for the first quarter of this year are up about three per cent to $1.76 billion, from the same quarter a year ago.

- Agri-food exports, which include primary and value added agricultural products, fell 8.8 per cent to $4.6 billion in 1999, primarily due to low commodity prices and reduced grain and live cattle exports. However, exports of value added products continued to grow, with beef and pork leading the way. For these two commodities, exports were up 30 per cent and 24 per cent, respectively, fueled mainly by increased processing capacity in the province. Overall, agri-food exports in 2000 are expected to be higher than in 1999.

- In 1999, the value of agri-food exports to the US, Alberta's major trading partner, remained virtually unchanged at $2.7 billion. However, growth in value-added exports continued, up significantly by 21 per cent.

- Agri-food exports to Japan, Alberta's second largest market, were down for the second straight year, falling 17 per cent to $559 million in 1999. The drop in exports was mainly attributed to reduced sales of canola seed. Exports to China also declined, falling 33 per cent to $187 million. Overall, agri-food exports to Asia were down 22 per cent to $1.0 billion.

- Currently, cattle markets are very strong due to declining inventories, stronger beef demand and low grain prices, which have improved returns. Prices are well above the five-year average, and will likely remain so through 2001.

- The Canada/US trade dispute on live cattle which was successfully resolved in Canada's favour has not negatively impacted Alberta's beef trade. Reductions in live cattle exports to the US continue to be the result of increased slaughter activity in the province. This additional processing capacity has meant increasing feeder cattle imports from the US and other provinces.

- Profitable conditions have returned to the hog industry, as producers are now operating above break-even levels. Consolidation into larger operations and improved efficiency continues.

- Canola producers harvested a record crop in 1999 as a result of higher acreage and record yields. However, significantly lower prices brought on by increased world production have reduced canola cash receipts by over 30 per cent.

- In 1999, higher yields and acreage resulted in a 20 per cent increase in wheat production from a year ago. However, cash receipts will remain under the $750 million mark, as a result of prices which are well below the five-year and ten-year averages.

ENERGY

- Weak oil prices in the first half of 1999 prompted consolidation among Alberta's petroleum producers. With an improved outlook, resulting from the large increases in oil and gas prices, activity in the industry will increase both this year and in 2001.

- Offsetting the impact of weak oil prices during the first part of 1999 were Alberta's oil sands investments. The long lead times and large budgets required provided stability during the downturn in the energy sector.

- The continued strength in the price of crude oil reflects the supply shortage in world markets. While OPEC has modestly increased production, the higher quotas have had little impact on low inventories. As a result, crude oil prices are not expected to see a major downward adjustment until some time next year.

- Inventories of gasoline remain very low and with the busy driving season approaching quickly, refineries will have to increase production.

- The average annual price of West Texas Intermediate (WTI) was US$19.24 per barrel in 1999 and was over the $30 level by the end of June.

- The natural gas industry continues to flourish. The opening of the Alliance pipeline will increase export capacity to the US mid-west by about 20% by late 2000.

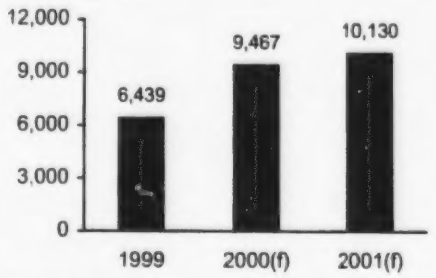
- Alberta natural gas exports have been rising in response to greater US demand and additional export capacity to the US. The Northern Border pipeline to the US is already operating close to capacity.

- Natural gas is the preferred clean burning fuel, and will be increasingly used in power generation in the US. As a result, there will be an increasing reliance on Canadian gas supplies. This will reinforce current levels of drilling activity in Alberta.

- The average fieldgate price of natural gas was Cdn$2.50 per thousand cubic feet in 1999. As of the end of May, spot prices for natural gas were almost double the level at the beginning of 2000, but have weakened somewhat since then.

- With higher prices for crude oil and natural gas, cash flows for producers have improved, and exploration and development has increased strongly in the first half of 2000. The Petroleum Services Association of Canada forecasts that nearly 9,500 wells will be drilled in Alberta in 2000, compared to 6,439 last year. Goepel McDermid forecasts that the number of wells drilled in Western Canada will further increase in 2001 by about 7%.

Wells Drilled in Alberta



Sources: PSAC, AED

Forestry

- The Canada-US Softwood Lumber Agreement remains a significant obstacle facing the forest industry. Renewal of the Agreement in its current form is being challenged by the provincial and Canadian federal governments, and by US consumer groups.

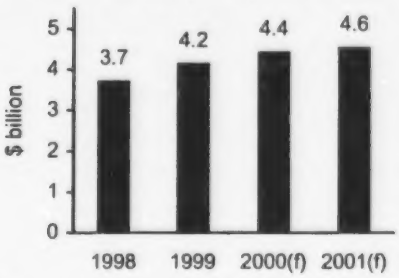
- A record year for US housing construction increased lumber prices in 1999. Despite this growing demand, Canadian exports to the US have been constrained by the Softwood Lumber Agreement.

- Overseas, Japanese demand for forestry products is starting to grow as its housing market strengthens, but growth will be moderated by the continued weakness in economic growth. During the past year, the Japanese Yen has risen sharply against all major currencies. This will assist Alberta exporters. However, currencies of Alberta's European competitors have fallen even more against the Yen than the North American currencies.

- For 2000, increased capacity and the expected slowing down in the US housing market will lead to lower lumber and structural panel prices. Higher interest rates and lower economic growth will likely cause US housing starts to decline sharply in 2001, and put further pressure on lumber and panel prices. Lumber prices averaged about US$340 per thousand board-feet (mbf) in 1999, but had fallen to about US$270 in May. Price weakness is expected to continue in 2001 (US$315).

- The improvement in the market for pulp has shifted pricing power to producers. Sustained demand from Europe and Canada, a recovery in Asia and limited capacity additions worldwide have increased prices in 2000. Moreover, inventory levels are at a five year low.

Alberta Forestry Shipments



Sources: StatsCan; AED (forecast)

- Northern Bleached Softwood Kraft (NBSK) had increased from about US$535 per tonne in 1999 to about US$680 per tonne as of May this year. Prices are expected to jump another US$30 in July. Pulp prices will likely remain high in 2001.

- Recently, newsprint prices have risen strongly, as a result of declining North American inventories, strong demand growth in the United States, rising demand from Asia, and production cuts resulting from industry consolidation.

- The forecast for newsprint is for fairly strong growth in 2000. Newsprint prices have increased from 1999's average of US$510 per tonne to about US$555 per tonne in May, and another large price hike later this year or in 2001 seems imminent. The demand for newsprint is forecast to decline slightly in 2001, as the US economy slows and dot.com advertising declines.

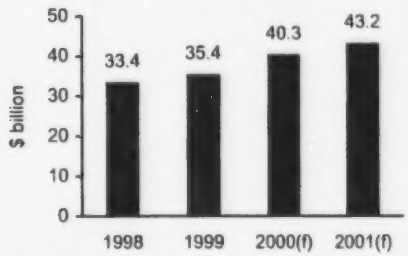
MANUFACTURING

- Despite low oil prices in 1998 and the first part of 1999, Alberta's economy did not suffer any significant downturn. This was due in part to the economic diversity brought on by a growing manufacturing sector.

- Manufacturing accounts for approximately 10 per cent of Alberta's economy. In 1999, the value of manufacturing shipments was $35.4 billion, two-thirds of which are resource based (food processing, petrochemicals, refined petroleum and forest products).

- Manufacturing shipments grew by 5.8 per cent in 1999, partly because of stronger commodity prices for petroleum products and lumber. Shipments by the machinery industry fell by one quarter, as oil and gasfield equipment shipments dropped because of low oil prices in the first half of 1999.

Alberta Manufacturing Shipments



Sources: StatsCan; AED (forecast)

- During the first quarter of 2000, Alberta manufacturing shipments increased strongly by 24 per cent as both prices and volumes increased. All major industries recorded strong growth. The largest increases were recorded by the petroleum and coal products sector (up 117%), followed by primary metals (up 39%), fabricated metals (up 37%), and paper and pulp (up 33%).

- Alberta's manufacturing sector is buoyed by strong international demand and increased production capacity. This sector will continue to contribute to the province's overall growth in both 2000 and 2001. Real growth is forecast to reach about seven per cent this year and six per cent in 2001.

- For all of 2000, the value of manufacturing shipments is forecast to increase by 14 per cent because of improved commodity prices, especially of refined petroleum products, the recovery in Asian markets and strong demand from the US and the rest of Canada.

- An expected slowdown in 2001 in the US economy and in the rest of Canada, will slow the growth in demand for Alberta's manufactured goods. However, because of strong commodity prices, which will also further boost demand for oil and gasfield equipment, and additional petro-chemical capacity, the slowdown is not expected to affect Alberta as much as the rest of Canada. Alberta's growth rate in 2001 is forecast to decline to about 7 per cent, mainly because of weaker petroleum product prices.

- The value of refined petroleum product shipments increased sharply in the first quarter of 2000 due to higher oil prices. Similarly, machinery and fabricated metal shipments were higher primarily due to the recovery in demand for oil and gasfield equipment.

- Improvement to Alberta's manufacturing sector will be reflected in chemical markets. Additional

ethylene and polyethylene capacity, and other derivative production will be contributing factors to the growth in chemical manufacturing. More than $3 billion of new investment in Alberta's petrochemical industry is expected to increase its capacity by 20%.

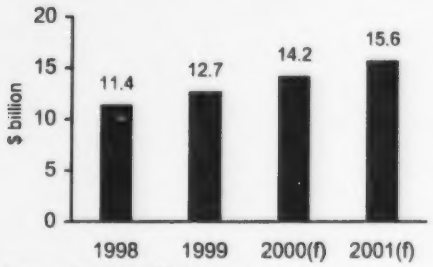
- Alberta's food and beverage processing industry continues to expand. Preliminary figures for 1999 show food and beverage shipments at $7.8 billion, up 3.5 per cent over 1998. Shipments should increase in 2000 with continued expansion of cattle and hog processing.

- Alberta's electrical and electronics industry should again outperform the manufacturing sector as a whole in 2000 and 2001. Contributing to this will be continued demand for computers and telecommunications equipment.

- Major new investments in oil sands, conventional drilling activity and construction will drive growth in Alberta's machinery and equipment industry. Demand should increase significantly both this year and next year. Only a drop in the demand for agricultural machinery could dampen performance in 2000.

- Lower demand from Asia and low prices discouraged production in Alberta's chemical industry in 1999. Currently, commodity prices are beginning to recover as US and Asian demand grows. However, additional capacity and regulatory changes may weaken prices over the next two years.

Alberta Manufacturing Exports



Sources: StatsCan; AED (forecast)

- In 2000, the large increase in underlying commodity prices, especially of petro-chemicals, strong growth in Alberta's electronics industry, the strong U.S. economy and the recovery in Asian markets and in oil and gasfield equipment exports, are expected to boost manufacturing exports by about 12 per cent.

- In 2001, strong growth in world markets, for instance in Asia and Latin America, continued strength in the electronics industry, additional petro-chemical capacity in Alberta, and the continued growth in oil and gasfield equipment exports, are expected to boost manufacturing exports by a further 10 per cent.

ADVANCED TECHNOLOGY

- Alberta's advanced technology sector is an integral part of the provincial economy. Advanced technology is supported through a large network of public and private research institutes and includes companies engaged in activities such as: electronics and microelectronics, software/computing products and services, biotechnology, telecommunications, engineering services, and scientific research.

- In Alberta, there are over 1,500 software development and computer service companies and more than 250 companies engaged in electronic design and manufacturing. The impact of these two alone account for almost 20,000 in employment and over $6 billion in revenue.

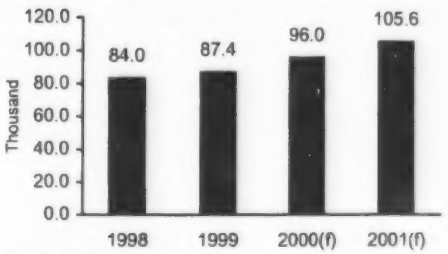
- Employment in advanced technology has shown tremendous growth, averaging over 11 per cent between 1994 and 1999. In comparison, Alberta's total employment growth has averaged about 3.2 per cent over the same period.

- Alberta's advanced technology manufacturing sector should continue to do well both this year and in 2001. Growth over the next year will be fuelled by continued demand for telecommunications equipment.

- A rising need for technology services, particularly software/computing services and engineering, will also be key in sustaining economic growth in this industry. Demand for engineering services should increase significantly both years, due to a number of major construction projects in Alberta, especially in the oil sands.

- Currently, Alberta's advanced technology sector employs over 87,000 and should continue to outperform other sectors of the economy. In particular, the province's investment in technology should generate additional activity within the sector.

Alberta Advanced Technology Employment



Source: Statistics Canada; AED

- Other factors influencing the sector's growth include $54 million invested in a wireless and optical internet services facility in Calgary and $15 million invested in a new research centre at the University of Calgary. The University of Alberta has seen over $50 million invested in a computer and engineering centre and $13 million invested in the new professional centre.

- The Alberta government has set aside $500 million in Budget 2000 for the creation of a new Alberta Heritage Foundation for Science and Engineering Research (AHFSER) to provide stable, long term funding for research and development in a variety of science and engineering fields. If provincial finances permit, an additional $100 million will be added to the fund each year for the next five years.

- The Alberta Heritage Foundation for Medical Research (AHFMR) has contributed over $600 million to the Alberta medical research community since 1980.

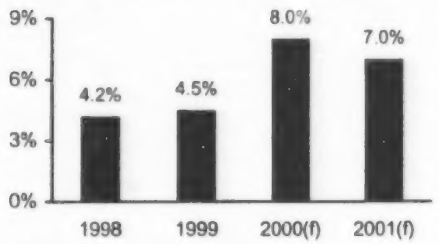
CONSUMER SPENDING

- Alberta retail sales grew modestly by 4.5 per cent in 1999, mostly because of dampened vehicle sales. In real terms, after taking out the effect of higher prices, the increase was only about 2 per cent.

- In the first four months of 2000, however, retail sales increased by 9.4 per cent, as a result of strong growth in sales of automobiles, furniture and appliances, and higher gasoline prices. As a result, growth is now forecast at about 8 per cent for 2000.

- In 2001, retail sales are expected to remain strong, as personal tax cuts in Alberta of more than $1 billion in 2001 will help stimulate consumer demand. Weaker economic and employment growth in the US and Canadian economies, and higher interest rates could reduce Alberta retail growth to about 7 per cent.

Alberta Retail Sales Growth



Sources: Statistics Canada; AED

- After falling sharply in 1998, consumer confidence in the Prairies strengthened in 1999, and has remained strong through the first quarter of 2000. It is believed that in the case of Alberta, a recovery in the energy sector, continued employment growth, tax cuts and an increase in construction activity have made Albertans more optimistic about future spending.

TOURISM

- Preliminary data and reports from tourism operators in Alberta suggest that 1999 was a rather modest year for tourism, with the exception of the Mountain Parks, which experienced strong growth from international markets.

- The outlook for domestic travel to Alberta in 2000 is mixed. The forecast for employment growth and gains in disposable income suggests that domestic travel will strengthen. Countering that, there is a significant increase in the number of Canadians reporting that they will take a winter vacation outside of Canada, attributed to the growth in disposable income.

- As a result, growth in the number of domestic visitors to Alberta is forecast at between 2 and 3 per cent, with the strongest growth expected from business travel.

- The US is expected to remain the key international market again this year. The positive economic outlook for states that are key markets for Alberta will ensure that the US remains an important market for Alberta. An increased marketing presence in key states is expected to generate positive results in 2000 and beyond.

- The exchange rate will continue to be favorable to American visitors throughout 2000. However, during presidential election years, Americans tend to remain closer to home, which could have a moderating influence on outbound travel by Americans in 2000. Growth by overnight US visitors to Alberta is forecast to increase approximately 6 per cent in 2000.

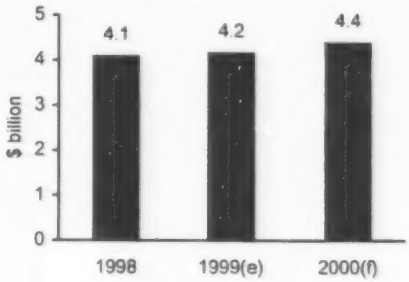
- Overnight visits from overseas markets are also expected to increase next year. In particular, the UK is likely to remain a strong market for Alberta. Economic improvements over the past few years have helped personal incomes to rise substantially and with it consumer spending, including spending on travel. The British pound is expected to remain strong against the Canadian dollar. The number of UK visitors to Alberta is expected to increase about 3 per cent in 2000.

- Less than favorable economic conditions in Germany, such as overpriced labour, weak export growth, and stringent labour laws have negatively impacted travel to Canada this year. This year, millennium-based activities in Germany and throughout Europe will compete for travel as will Expo 2000 in Hannover. In 2000, travel by Germans to Alberta is expected to increase by approximately 1 per cent, with stronger growth expected in 2001.

- Travel from Japan is forecast to show another year of strong growth in 2000, following a 27 per cent increase in 1999. The number of Japanese tourists visiting Alberta in 1999 totaled more than 148,000. Economic conditions in Japan continue to be difficult since they are deeply structural, rather than cyclical. However, it appears that the Japanese market has begun to improve following several years of declines. The number of Japanese visitors to Alberta is expected to increase approximately 10 per cent in 2000.

- Overall, tourism revenues in Alberta are expected to reach approximately $4.4 billion in 2000.

Alberta Tourism Revenue



Sources: Statistis Canada; AED

Housing and Non-Residential Construction

- According to the latest Statistics Canada survey of *Private and Public Investment in Canada*, total capital expenditures on new construction in Alberta are expected to increase by 2.9 per cent in 2000 to $19.9 billion, as a result of high energy prices. Energy-related construction is expected to increase in 2000 by 30%. Non-energy construction in 2000 is expected to decline by 4.9 per cent due to the completion of many expansion projects.

- A more recent study, "Alberta Construction Workforce Supply/ Demand Forecast" (ACWSDF), however, suggests that total construction growth in 2000 could approach 10 per cent, because of recently announced mega projects and the robust economy.

- For 2001, total construction growth is forecast to be in excess of 4 per cent. Energy construction will continue to rise due to the expansion of the drilling sector and oil sands projects.

- Total housing starts fell to 25,447 in 1999. In 2000, housing starts are expected to rise to about 26,500 units. The improved energy sector and continued in-migration should more than offset the decline in condominium starts, resulting from an inventory overhang.

- For the first five months of 2000, Alberta's single detached dwelling starts in urban areas were up 14 per cent, and multiple dwelling starts 26 per cent.

- In 2001, the number of housing starts is expected to increase to 27,500 units, as higher interest rates somewhat offset the positive impact of Alberta's robust economy.

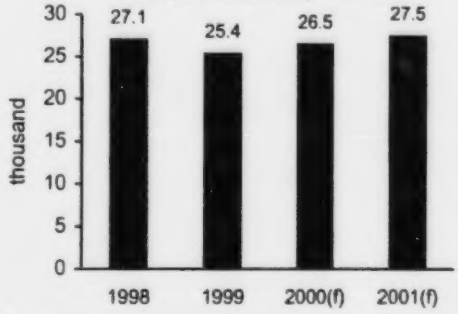
- According to the Alberta Construction Association's annual forecast, the value of residential construction fell by 7.3 per cent in 1999. The ACWSDF forecasts residential construction to grow by 9.7 per cent in 2000, and by 5.4 per cent in 2001.

- The ACWSDF predicts growth of 3.6 per cent for institutional construction in 2000, and of 3.9 per cent in 2001. However, recent announcements by the Alberta government for new investment in infrastructure for schools and hospitals are likely to result in higher growth in both years.

- The commercial sector grew strongly in 1999, with an increase of 10 per cent to $1 billion, while the industrial sector expanded by 5 per cent to $0.9 billion. For 2000, both sectors are expected to continue to expand.

- In southern Alberta commercial and industrial construction is expected to continue at the same pace, but in Edmonton it will grow strongly. This is because Edmonton acts as a manufacturing, supply and service center for the northern regions of Canada, and because of the billions of dollars in new oil sand investment. Overall for non-residential construction in 2000, the ACWSDF predicts a growth rate of 10 per cent. For 2001, 4.3 per cent growth is expected.

Alberta Housing Starts



Sources: CMHC; AED